



**Director of
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ISRAEL-LEBANON: PLA Brigade Evacuated Overland

(Information as of 2330 EDT)

//One of the two Syrian-controlled Palestine Liberation Army brigades stationed in West Beirut was evacuated overland to Syria yesterday. Syrian and Israeli officials have assessed the prospects for withdrawing their forces in Lebanon, which now total about 46,000 and 33,000, respectively. A Soviet press agency item has reemphasized Soviet unhappiness with US deployments in Lebanon.

//The Palestine Liberation Army brigade, consisting of about 1,255 fighters, was the first unit evacuated by road convoy. Italian troops escorted it to the Syrian border. Another 1,300-man Palestine Liberation Army brigade and 3,000 Syrian regular troops are scheduled to leave Beirut next week.

Approximately 720 PLO fighters left for Syria by ship yesterday, bringing the total of PLO personnel evacuated to some 5,000.

Syrian-Israeli Views on Withdrawal

//A Syrian journalist, [redacted] on Wednesday quoted a ranking military official as saying Syria was prepared to withdraw its remaining forces from all of Lebanon if the Israelis leave. On the same day, an assistant to Israeli Defense Minister Sharon told a member of the US defense attache's office that Israel's forces would not leave Lebanon until the Syrians had departed. He said Israel was prepared to push the Syrians out militarily if they would not leave otherwise.

Comment: The Syrian officer's statement implies a willingness by Damascus to reconsider its refusal to pull out its troops without a request from the Lebanese President and the Arab League. The Syrian presence in Lebanon is sanctioned by an Arab League mandate, and the Syrians have rejected an equation between the Israeli presence and their own. The official, however, may be signaling that a deal could be struck at some point that would lead to a mutual withdrawal.

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Troop Dispositions

//Although Israel has been drawing down its forces in the Beirut area, Israeli troop dispositions in the Bekaa Valley remain essentially unchanged. Israeli units withdrawn thus far have been reserve cadres and artillery.//
[redacted]

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//Regular Army units continue to man positions along the Beirut-Damascus highway and in the Bekaa Valley. Israeli troops in Lebanon now number about 33,000, down from 39,000 two weeks ago.// [redacted]

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//Syria reportedly has reinforced its units in the Bekaa Valley with at least two brigades [redacted]

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[redacted] Damascus has maintained a high force level in Lebanon since early June, and the additional brigades would bring the total troop strength to about 46,000.// [redacted]

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Comment: Syrian reinforcement of the Bekaa Valley would indicate that Damascus does not intend to withdraw from Lebanon without a fight. Nevertheless, Israeli air supremacy, dominance of the ridgeline overlooking the Bekaa Valley, and ability to bring in reinforcements rapidly would give Israel a substantial advantage in any hostilities. [redacted]

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Soviet Commentary

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An article by the Soviet press agency, Novosti, in English on Thursday revived the USSR's categorical opposition to the deployment of US forces in Beirut. The item charged the the deployment was an "unfriendly act" that further aggravates US-Soviet relations. Although it suggested that the USSR could not remain indifferent to a US "bridgehead" so near Soviet borders, it did not threaten any specific retaliation. [redacted]

Pravda carried a related but much more restrained article by the same author, a prominent commentator on Middle Eastern affairs. [redacted]

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Comment: The press agency article contrasts with recent Soviet media silence on this issue [REDACTED]

[REDACTED] Use of this low-level vehicle seems designed to reemphasize Moscow's unhappiness with the deployment without committing Soviet prestige to opposing something it cannot reverse. [REDACTED]

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POLAND: More Demonstrations Ahead

Tensions continue to build as the second anniversary of Solidarity's establishment approaches. [redacted]

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Underground Solidarity leader Bujak yesterday called for mass demonstrations on Tuesday. He noted the union might suffer if no major show of strength occurs. [redacted]

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The regime, meanwhile, is working hard to intimidate the populace. Yesterday it announced completion of a Polish-Soviet military exercise and the strengthening of security forces in the militant cities on the Baltic. Polish television announced that police had arrested 108 demonstrators in Lodz, about 110 kilometers southwest of Warsaw. [redacted]

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The US [redacted] estimate protests in the next several days will rival those staged in mid-May. They also expect the regime will be able to keep demonstrations under control. (C)

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Pravda on Thursday published an overview of the internal situation in Poland that focused on the slow economic and social recovery there and blamed the persistence of "bourgeois ideology" and "revisionists" in the private sector. The article ends on an uncertain note, however, foreseeing a continued "difficult struggle" in Poland. [redacted]

Comment: The publication of such an article suggests Moscow is concerned about what may occur in Poland next week and wants to prepare the Soviet public for any eventuality. The reference to "bourgeois" and "revisionist" remnants underlines Soviet frustration at the persistence of worker opposition. In the coming week, the USSR is likely to highlight economic sanctions and other alleged Western interference in Polish affairs and to signal support for the martial law regime's efforts to maintain stability and control. [redacted]

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IRAN-IRAQ: Status of Facilities on Khark Island

Iraqi airstrikes on Khark Island over the past two weeks have damaged oil export facilities and discouraged some tankers' from loading. [redacted]

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//Air attacks on 18, 20, and 25 August destroyed four medium storage tanks. They also damaged a pipeline leading to the jetty where tankers load oil and one of six pipelines that carry crude to Khark Island from the mainland.// [redacted]

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//Although no tankers had been observed loading at the jetty, at least five tankers have loaded at other facilities at Khark since 17 August. Tankers are still being scheduled for loading.// [redacted]

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[redacted]

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[redacted] Iran also has warned it will close the Persian Gulf to all shipping unless Iraq halts its attacks on Khark Island.// [redacted]

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Comment: //Iraq probably will have to inflict major damage to the loading facilities or to a foreign tanker before a substantial reduction in Iranian oil exports is likely.// [redacted]

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//In spite of the risks, there are still great incentives for purchasers. Even with higher transport and insurance rates, Iranian crude still has a \$2.40 per barrel cost advantage over Arabian crudes. Moreover, tanker owners stand to make better than 100-percent profit for such dangerous hauls in spite of a depressed world-tanker market.// [redacted]

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//A short-term drop in oil exports would not hurt the Iranian economy. Oil payments usually lag two to three months. This flow of income and Iran's foreign exchange reserves should allow Tehran to continue the war and its domestic economic program.// [redacted]

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COSTA RICA - NICARAGUA: Asylum Offered to Key Exile

President Monge's offer of asylum to exiled Nicaraguan revolutionary hero Eden Pastora underscores his determination to continue the hard line against the Sandinistas, despite some opposition in his ruling party. [redacted]

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//Monge made the offer when he met Pastora during presidential inauguration ceremonies earlier this month in the Dominican Republic. It is contingent on Pastora's pledge to refrain from the kind of military activity that led to his expulsion from Costa Rica last spring. [redacted]

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//Pastora's presence in the Dominican Republic also coincided with a meeting of the Socialist International.

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Comment: Monge's offer, which Pastora almost certainly will accept, appears to be a victory for Volio. He is largely responsible for the increasingly hard line against the Sandinistas, and he has been locked in a power struggle with Solano over the issue. [redacted]

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The President realizes Pastora will be difficult to control. His offer, however, probably reflects his anger at Sandinista complicity in a recent terrorist incident in San Jose. [redacted]

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//The move will aggravate tensions with Nicaragua, but Monge may reason that growing international disillusion with the Sandinistas will reduce chances of retaliation. Nevertheless, the Sandinistas regard Pastora's popularity in Nicaragua as a threat and may try to have him killed.//

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SPAIN: Early Election

Prime Minister Calvo Sotelo announced yesterday that national elections will be held on 28 October. After Calvo Sotelo met with the cabinet on Thursday, King Juan Carlos signed a decree dissolving parliament. [redacted]

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Comment: The early election favors the opposition Socialists, who have considerable momentum as the front-running party. Calvo Sotelo and other leaders of the Center Democratic Party probably believed, however, that they had to start the campaign now in order to prevent further defections to former Prime Minister Suarez's Social Democratic Center and other new splinter parties. An early election also denies the new parties time to build up campaign organizations and establish their identity with the voters. [redacted]

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CHILE: Cabinet Changes

President Pinochet on Thursday asked for the resignation of his cabinet and probably will name new ministers next week. As in the shakeup in April, the government announced that new economic measures designed to combat the deepening recession will accompany the changes.

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Comment: Pinochet has effectively used such shakeups in the past to regain the political initiative and restore confidence in his administration. The last two reorganizations, however, brought rapid and unexpected economic policy changes and led to increased public uncertainty. Pinochet's hold on power depends largely on the order and economic progress he has enforced. If public confidence is shaken, his regime could face its first real challenge in nine years.

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SEYCHELLES: President Losing Support

Public support for President Rene is eroding following the Army mutiny last week, according to the US Embassy. The public generally sympathizes with the mutineers, who may have included up to 200 of the 700-man Army. The Seychellois especially resent the key role of Tanzanian troops in putting down the rebels. [REDACTED]

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Comment: Rene is likely for now to continue relying on Tanzanian troops. Further weakening of his position or another challenge to his rule probably would cause him to ask France or the USSR to assist his security services. The French, however, are reluctant to become involved for financial and political reasons, and Moscow would be unlikely to provide a military garrison. The USSR would be more likely to try to arrange Cuban and East German help and, in return, might seek regular air and naval access to facilities in Seychelles [REDACTED]

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SPECIAL ANALYSIS

INTERNATIONAL: Debt Problems in Developing Countries
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The financial crisis in Mexico is highlighting again the growing debt burden of the developing countries. Mexico, Argentina, and Brazil are the three largest debtors among developing countries, and the first two are likely to obtain some form of debt relief from commercial banks before the end of the year. The international financial community is increasingly concerned about the implications of these arrangements. The flow of bank lending to developing countries, however, should not be seriously disrupted. [redacted]

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The total of the developing nations' medium- and long-term external debt is likely to approach \$550 billion by the end of 1982, up from \$150 billion only seven years ago. Until this year only the smaller developing countries--with an aggregate debt of only \$10 billion, or some 2 percent of total developing country debt--have been in arrears on their debt payments. Now Mexico and Argentina are in arrears, and the countries in evident financial trouble have nearly 25 percent of the aggregate debt. [redacted]

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The international financial community is most concerned about the situation in Mexico. Overambitious development goals; heavy borrowing that has pushed foreign debt, including short-term, to upwards of \$80 billion; and loss of confidence among Mexicans in the government's ability to manage the economy underlie the crisis. [redacted]

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Mexico has virtually exhausted its foreign reserves, but it still has to repay more than \$30 billion in short- and long-term loans coming due over the next 12 months. Mexico City, in what promises to be the largest debt re-scheduling in history, probably will try to refinance more than \$20 billion in short-term bank debt and to get an extension on repaying maturing long-term credit. [redacted]

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Other Major Debtors

Other countries, especially in South America, also are having difficulty managing their international finances. Argentina--the third-largest debtor among developing countries--faces serious repayment problems following the economic disruptions caused by the costly conflict with the UK. [redacted]

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The resignations last week by the Economy Minister and the president of the Central Bank in a dispute over economic policy will reinforce the conviction growing in the banking community that the Argentine economy is precarious. Unless Buenos Aires moves quickly to put its house in order, it probably will also be forced to seek a rescheduling of the \$15 billion coming due in the second half of 1982. [redacted]

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Chile and Peru also could encounter difficulty because of reduced export earnings, rising debt servicing burdens, and declining confidence among lenders. Venezuela could face repayment problems if it is unable to refinance its short-term debt of some \$15 billion. [redacted]

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Debt restructuring is becoming more attractive to other countries in less immediate jeopardy. This option is now openly discussed in Brazil, even though the country is meeting its foreign financing requirements in good order. Growing numbers of Brazilians are discussing the restructuring of Brazil's \$80 billion debt as a way of alleviating external constraints on domestic growth. [redacted]

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Some Brazilian economists are calling for the major Latin debtors to seek a collective renegotiation. Despite the debate, there apparently is no support for voluntary debt renegotiations in Brazilian Government circles or in other Latin governments. [redacted]

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Implications of Debt Problems

The current debt crises in Mexico and Argentina are bound to stimulate a great deal of concern about the stability of the international financial system. So far, both countries have acted responsibly in dealing with their foreign creditors. [redacted]

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Debt renegotiations by Mexico and Argentina will not of themselves impair the profitability or solvency of the creditor banks as long as full interest payments are made. Nonetheless, they are likely to make bankers and regulatory authorities more nervous about extending substantial credit to the developing countries. [redacted]

The debt problems of the developing countries will cause lenders to pay closer attention to the particular economic and political problems of individual nations. The maturity structure of the external debt of a number of major borrowers, including Argentina and Venezuela, has become heavily weighted toward short-term obligations. The need for constant refinancing, combined with the susceptibility to reductions by the banks in new lending, put added pressure on these countries. [redacted]

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Impact on the US

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Although developing-country financial problems are not limited to Latin America, the debt management difficulties being encountered there have the most serious implications for the US. The Federal Reserve reports that US banks--excluding foreign subsidiaries--had extended some \$70 billion in credits to Latin American borrowers at the end of the first quarter of 1982. US banks account for some 40 percent of industrial countries' bank lending to Mexico and Brazil. [redacted]

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US financial institutions could be whipsawed by financial rumors, unanticipated shocks, and the failure to arrange orderly debt reschedulings. Any visible effort by the US Government or by US banks to help resolve Latin American economic problems by encouraging austerity measures could leave Washington vulnerable to charges of meddling in these countries' internal affairs. [redacted]

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